

MEMORANDUM



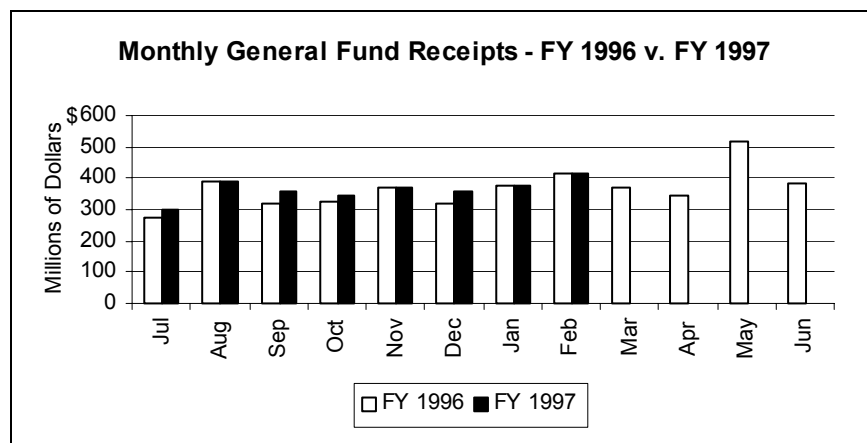
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: March 3, 1997

General Fund Receipts Through February 28, 1997

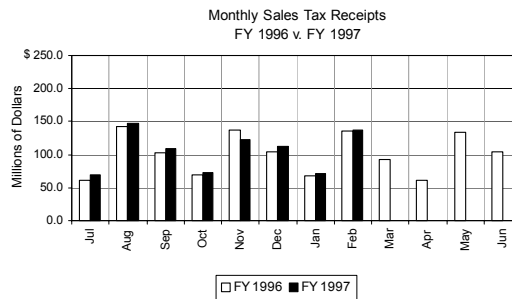
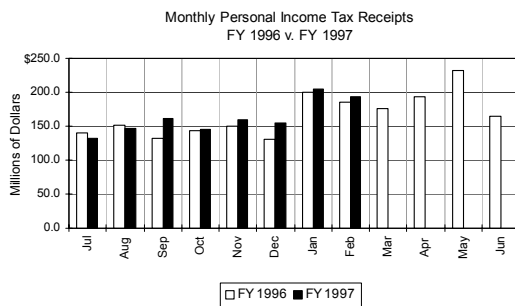
The attached spreadsheet represents total FY 1997 General Fund receipts, with comparable figures for FY 1996. These can be compared to the latest FY 1997 estimate (\$4.627 billion) set by the Revenue Estimating Conference (REC) on November 21, 1996. The estimate represents an increase of \$220.4 million (5.0%) compared to FY 1996. The FY 1998 estimate of \$4.835 billion represents an increase of \$208.0 million (4.5%) compared to the FY 1997 estimate.



Total year-to-date General Fund receipts for the first eight months of FY 1997 increased 4.4% compared to FY 1996. Tax receipts showed an increase of 4.6%. Personal income tax receipts increased 5.3%. Sales tax receipts were 2.5% higher than the previous fiscal year. Use tax receipts increased 7.1% compared to FY 1996, and corporate income tax receipts showed a 7.6% increase. Receipts collected in the month of February were 0.3% less than February 1996. Through February, there has been one more processing day than the same period in FY 1996. Due to the leap year, the month of February had one less processing day than February 1996.

Gross personal income tax revenues received in February were \$7.5 million (4.1%) greater than February 1996. The increase was led by growth of 5.7% in withholding receipts. For the second consecutive month, estimate payments were below year-ago monthly levels. However, over the last quarter, estimate payments exceeded the December-February period last year by 10.5%. The REC estimate of \$2.109 billion

represents a projected increase of 5.4% compared to FY 1996. Individual income tax receipts for the remainder of the year need to grow 5.5% (compared to the last four months of FY 1996) to reach the revised estimate.



Sales tax receipts in February increased 1.3% compared to February 1996. The lingering effects of the local option reconciliation payment brought to your attention three months ago is still being reflected in the year-to-date figure, which is 2.6 percentage points below the REC estimate. This payment, paid from the quarterly receipts account, was approximately \$15.0 million higher than last year's payment. Although the loss is viewed as a one-time decrease, the growth in February's local option payment was far greater than the general growth in sales tax receipts. The February payment was approximately \$17.4 million, which was \$4.9 million (39.2%) more than the February 1996 payment. At this point, it is very unlikely that sales tax receipts will recover enough to reach the REC estimate. Receipts for the remainder of the year will need to grow 10.6% to reach the current estimate.

Corporate income tax receipts in February were flat, nearly matching receipts in February 1996. Year-to-date receipts exceeded FY 1996 levels by \$12.4 million (7.6%). The current REC estimate of \$294.4 million represents an increase of 6.1% compared to actual FY 1996 corporate income tax receipts. To reach the REC estimate, receipts for the remainder of the year will need to grow 3.8% compared to the last four months of FY 1996.

Franchise tax receipts through the first eight months of FY 1997 totaled \$18.1 million, an increase of \$2.5 million (16.2%) compared to actual FY 1996 receipts. The large monthly growth rate of 225.3% should be viewed with caution because the month of February typically contributes less than 2.0% of total franchise tax revenues. Prior to the fourth quarter of FY 1996, there was little evidence that legislation from the 1995 Legislative Session was successful in recovering lost revenues. However, receipts during the last quarter of FY 1996 and the first quarter of FY 1997, as well as an informal analysis of franchise tax returns by the Department of Revenue and Finance, indicate that tax avoidance measures recently utilized by banks may be diminishing substantially. Franchise tax revenues received in the next four months need to exceed last year's level by 9.0% to reach the REC estimate of \$30.0 million.

Racing and gaming receipts - The November REC anticipated total racing and gaming receipts to reach \$113.5 million in FY 1997, \$60.0 million of which is deposited in the General Fund. This level would result in a transfer of \$53.5 million to the Rebuild Iowa Infrastructure Account in FY 1997. All racing and gaming receipts going to the General Fund have been collected. For comparison purposes, no racing and gaming receipts were deposited in the General Fund after February last year either. Consequently, growth in General Fund receipts will have to be generated from other revenue streams.

Receipts Compared to REC Estimate

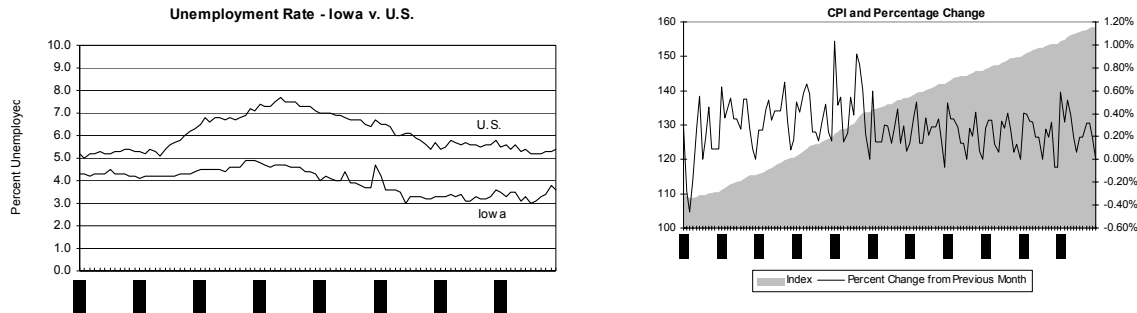
The November REC FY 1997 estimate of \$4.627 billion represents an increase of 5.0% compared to actual FY 1996 General Fund receipts. Assuming each month is expected to increase by the REC estimate, the estimate for the first eight months was short by approximately \$5.6 million (unadjusted for any timing factors).

General Fund receipts for the last four months of FY 1997 will have to exceed the FY 1996 level by 6.0% to reach the REC estimate. Due to the effects of the racing and gaming receipts earmark, non-gambling revenues will need to grow 6.3% for the remainder of the year to reach the overall REC estimate of 5.0%.

Status of the Economy

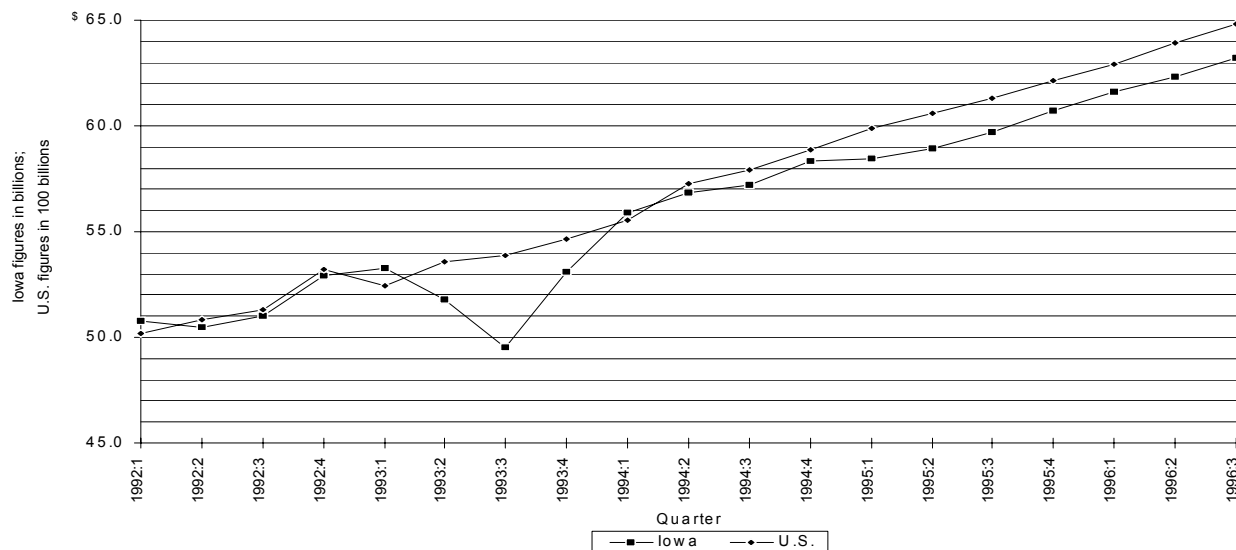
The seasonally adjusted percent unemployed for the State decreased two-tenths of a point to 3.6% in January. The unemployment rate a year ago was 3.6% as well. The U.S. unemployment rate in January increased to 5.4% from the December rate of 5.3%.

Consumer prices in January increased three-tenths of a point. The Consumer Price Index (CPI) through January 1997 was 159.1 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through December 1996.



The U.S. Department of Commerce released state personal income estimates for the third quarter of 1996. Iowa personal income grew 1.5% compared to the second quarter of 1996, and 5.9% compared to the third quarter of 1995; both of which are comparable with the plains states region. The following chart compares U.S. and Iowa annualized personal income by quarter since 1994.

Total Personal Income - Iowa Vs. U.S. (Seasonally Adjusted at Annual Rates)



Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Jon Muller (515-281-4611).

GENERAL FUND RECEIPTS - FY 1997 vs. FY 1996						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1996, through February 28, 1997, in millions of dollars						FY 96 Actual Compared to FY 97 REC Estimate		
	FY 1996		FY 1997		Year to Date	February	Actual	Estimate
	\$		\$		% CHANGE	% CHANGE	FY 1996	FY 1997
								% CHANGE
Personal Income Tax	\$ 1,233.2		\$ 1,299.0		5.3%	4.1%	\$ 2,000.9	\$ 2,109.0
Sales Tax	821.2		841.8		2.5%	1.3%	1,213.0	1,275.0
Use Tax	145.2		155.5		7.1%	2.3%	207.8	224.5
Corporate Income Tax	163.1		175.5		7.6%	0.2%	277.6	294.4
Inheritance Tax	63.9		70.9		10.9%	13.0%	95.9	108.0
Insurance Premium Tax	11.7		9.2		-21.2%	-21.4%	104.3	107.0
Cigarette Tax	62.9		62.9		0.0%	-13.9%	94.1	95.0
Tobacco Tax	3.6		3.8		6.4%	-3.9%	5.3	5.5
Beer Tax	8.5		8.6		0.3%	2.6%	12.6	12.5
Franchise Tax	15.5		18.1		16.2%	225.3%	26.5	30.0
Miscellaneous Tax	2.5		1.4		-43.7%	-189.7%	0.9	0.9
Total Special Taxes	\$ 2,531.3		\$ 2,646.7		4.6%	1.5%	\$ 4,038.9	\$ 4,261.8
Institutional Payments	68.4		69.6		1.7%	5.5%	105.0	104.7
Liquor Transfers:								
Profits	17.5		19.0		8.6%	0.0%	29.0	29.0
7% Gross Revenue	6.0		6.0		0.0%	0.0%	9.0	9.0
Interest	8.3		9.9		18.9%	n/m	13.5	13.0
Fees	41.0		42.6		4.0%	-0.9%	61.7	62.6
Judicial Revenue	24.2		24.3		0.3%	-0.2%	40.0	40.1
Miscellaneous Receipts	37.0		39.0		5.2%	-74.1%	49.5	46.8
Racing and Gaming Receipt	60.0		59.7		-0.5%	-100.0%	60.0	60.0
TOTAL RECEIPTS	\$ 2,793.8		\$ 2,916.8		4.4%	-0.3%	\$ 4,406.6	\$ 4,627.0
								5.0%